

CITY OF RILEY  
RILEY, KANSAS

FINANCIAL STATEMENTS  
DECEMBER 31, 2010

CITY OF RILEY, KANSAS  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

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# James L. Gordon, C.P.A., P.A.

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## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Riley, Kansas

We have audited the accompanying financial statements of the City of Riley, Kansas (the City), as of and for the year ended December 31, 2010, which collectively comprises the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Riley, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of the City of Riley, Kansas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government.

As described in Note 1, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Riley, Kansas, as of December 31, 2010, and its cash receipts and expenditures compared to budget for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2011 on our consideration of the City of Riley, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the City Council, management of the City of Riley, Kansas, the Kansas Department of Health and Environment, and for filing with the Kansas Department of Administration, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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James L. Gordon, C.P.A., P.A.  
June 28, 2011

## CITY OF RILEY, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH  
FOR THE YEAR ENDED DECEMBER 31, 2010

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances And Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
General	\$ 237,160.73	\$ -	\$ 410,039.24	\$ 422,628.29	\$ 224,571.68	\$ 4,407.59	\$ 228,979.27
Special Revenue Funds:							
Special Highway	28,910.08	-	30,453.56	29,284.95	30,078.69	-	30,078.69
Library	2,979.74	-	13,858.93	15,537.27	1,301.40	41.62	1,343.02
Debt Service Fund:							
Bond and Interest	818.45	-	66,093.09	58,464.20	8,447.34	-	8,447.34
Capital Projects Fund:							
Bergsten Development	22,871.18	-	-	-	22,871.18	-	22,871.18
Fox Run Development	1,947.09	-	614,728.32	611,862.15	4,813.26	-	4,813.26
Kansas Public Water Supply Loan Fund	(1,277,861.25)	276,876.41	926,814.24	8,373.58	(82,544.18)	119,053.87	36,509.69
Proprietary Type Funds:							
Enterprise Funds:							
Water Utility	111,981.76	-	309,335.39	240,609.41	180,707.74	199.97	180,907.71
Water System Maintenance & Replacement	16,800.00	-	4,200.00	-	21,000.00	-	21,000.00
Total (Memorandum Only)	\$ (854,392.22)	\$ 276,876.41	\$ 2,375,522.77	\$ 1,386,759.85	\$ 411,247.11	\$ 123,703.05	\$ 534,950.16
Composition of Cash and Investments:							
Operating Checking Account - Riley State Bank							\$ 492,344.22
Volunteer Fire Department Super Now Account - Riley State Bank							3,707.13
CDBG Project - Riley State Bank							36,509.69
Checking - Construction Escrow Account, Fire Department							2,389.12
Total							\$ 534,950.16

The notes to the financial statements are an integral part of this statement.



## CITY OF RILEY, KANSAS

SUMMARY OF EXPENDITURES  
ACTUAL AND BUDGET  
(BUDGETED FUNDS ONLY)  
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Fund</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Governmental Type Funds:					
General	\$ 487,550.00	\$ -	\$ 487,550.00	\$ 422,628.29	\$ (64,921.71)
Special Revenue Funds:					
Special Highway	63,712.00	-	63,712.00	29,284.95	(34,427.05)
Library Fund	16,144.00	-	16,144.00	15,537.27	(606.73)
Debt Service Fund:					
Bond and Interest	104,313.00	-	104,313.00	58,464.20	(45,848.80)
Proprietary Type Funds:					
Enterprise Funds:					
Water Utility	331,375.00	-	331,375.00	240,609.41	(90,765.59)

The notes to the financial statements are an integral part of this statement.

## CITY OF RILEY, KANSAS

GENERAL FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL AND BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Ad Valorem tax	\$ 138,017.68	\$ 143,676.00	\$ (5,658.32)
Delinquent tax	1,428.04	-	1,428.04
Motor Vehicle tax	20,881.86	22,330.00	(1,448.14)
Recreational Vehicle tax	569.77	448.00	121.77
16/20 M Vehicle tax	322.98	322.00	0.98
Intangibles tax	1,558.10	3,107.00	(1,548.90)
Local Sales tax	153,322.03	141,550.00	11,772.03
Federal Grants	40,170.00	-	40,170.00
Insurance Proceeds	1,951.87	-	1,951.87
Licenses and Permits	395.00	1,750.00	(1,355.00)
Interest on idle funds	1,202.74	2,500.00	(1,297.26)
Franchise fees	35,028.24	37,000.00	(1,971.76)
Swimming Pool fees	12,393.64	13,250.00	(856.36)
Proceeds from Sale of Asset	221.69	1,000.00	(778.31)
Reimbursements	-	-	-
Miscellaneous	2,575.60	3,500.00	(924.40)
Transfer from Water Utility	-	-	-
<u>Total Cash Receipts</u>	<u>\$ 410,039.24</u>	<u>\$ 370,433.00</u>	<u>\$ 39,606.24</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
General Administration:			
Personal Services	\$ 83,285.38	\$ 78,000.00	\$ 5,285.38
Contractual Services	1,057.64	-	1,057.64
Commodities	3,859.44	177,000.00	(173,140.56)
Capital Outlay	9,495.98	107,500.00	(98,004.02)
Employee Benefit	3,770.66	10,000.00	(6,229.34)
Principal	17,000.00	-	17,000.00
Interest	14,298.00	-	14,298.00
Lease Payment	31,901.59	-	31,901.59
<u>Total General Administration</u>	<u>164,668.69</u>	<u>372,500.00</u>	<u>(207,831.31)</u>
Fire Department:			
Commodities	63,141.83	23,000.00	40,141.83
Capital Outlay	-	29,550.00	(29,550.00)
<u>Total Fire Department</u>	<u>63,141.83</u>	<u>52,550.00</u>	<u>10,591.83</u>
Swimming Pool:			
Personal Services	17,596.83	21,000.00	(3,403.17)
Commodities	7,730.34	18,500.00	(10,769.66)
Capital Outlay	-	3,000.00	(3,000.00)
<u>Total Swimming Pool</u>	<u>25,327.17</u>	<u>42,500.00</u>	<u>(17,172.83)</u>

The notes to the financial statements are an integral part of this statement.

## CITY OF RILEY, KANSAS

GENERAL FUND, CONTINUED  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
 ACTUAL AND BUDGET  
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Actual	Budget	Variance Over (Under)
Street Lighting:			
Contractual	-	1,000.00	(1,000.00)
<u>Total Street Lighting</u>	-	1,000.00	(1,000.00)
Park:			
Commodities	53.98	10,000.00	(9,946.02)
Capital Outlay	-	5,000.00	(5,000.00)
<u>Total Park</u>	53.98	15,000.00	(14,946.02)
Street:			
Commodities	-	3,000.00	(3,000.00)
Capital Outlay	-	1,000.00	(1,000.00)
<u>Total Street</u>	-	4,000.00	(3,000.00)
Other:			
Accounting & Legal Fees	17,672.48	-	17,672.48
Dog Fees	1,424.98	-	1,424.98
Drug Testing Fees	-	-	-
Dues, Fees, & Fines	15,647.86	-	15,647.86
Electricity	28,519.38	-	28,519.38
Equipment Rental	-	-	-
FEMA Reimbursable Expense	-	-	-
Fuel	6,088.98	-	6,088.98
Insurance	59,353.95	-	59,353.95
Propane	6,703.29	-	6,703.29
Repairs & Maintenance	8,636.53	-	8,636.53
Supplies	6,689.02	-	6,689.02
Telephone	4,045.49	-	4,045.49
Miscellaneous	14,654.66	-	14,654.66
Adjustment for Qualifying Budget Credits	-	-	-
<u>Total Other Expenditures</u>	169,436.62	-	169,436.62
<u>Total Cash Expenditures and Transfers</u>			
<u>Subject to Budget</u>	\$ 422,628.29	\$ 487,550.00	\$ (64,921.71)
<u>Excess (Deficit) Cash Revenues Over</u>			
<u>Cash Expenditures</u>	(12,589.05)		
<u>Beginning Fund Balance</u>	237,160.73		
<u>Ending Fund Balance</u>	\$ 224,571.68		

The notes to the financial statements are an integral part of this statement.



CITY OF RILEY, KANSAS

SPECIAL HIGHWAY FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL AND BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<u>Cash Receipts:</u>			
State Payments	\$ 26,927.55	\$ 27,230.00	\$ (302.45)
City & County Payments	2,280.81	2,280.00	0.81
Rock & Sand	945.20	3,000.00	(2,054.80)
Proceeds from Sale of Asset	300.00		300.00
City/County Highway		2,200.00	
Federal and State Aid	-	-	-
Miscellaneous	-	-	-
<u>Total Cash Receipts</u>	<u>\$ 30,453.56</u>	<u>\$ 34,710.00</u>	<u>\$ (2,056.44)</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Commodities	\$ 902.03	\$ 63,712.00	\$ (62,809.97)
FEMA Reimbursable Expense	-	-	-
Rock & Sand	2,392.87	-	2,392.87
Repairs & Maintenance	80.09	-	80.09
Street Expense	25,909.96	-	25,909.96
Capital Outlay	-	-	-
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 29,284.95</u>	<u>\$ 63,712.00</u>	<u>\$ (34,427.05)</u>
<u>Receipts Over (Under) Expenditures</u>	<u>1,168.61</u>		
<u>Unencumbered Cash, Beginning</u>	<u>28,910.08</u>		
<u>Unencumbered Cash, Ending</u>	<u>\$ 30,078.69</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS

LIBRARY FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL AND BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Ad Valorem Tax	\$ 9,137.27	\$ 9,512.00	\$ (374.73)
Delinquent Tax	99.79	-	99.79
Motor Vehicle Tax	1,519.90	1,570.00	(50.10)
Recreational Vehicle Tax	41.24	32.00	9.24
16/20 Motor Vehicle Tax	26.57	23.00	3.57
CIME Reimbursement	-	-	-
State Aid	576.00	-	576.00
Miscellaneous	2,458.16	-	2,458.16
<u>Total Cash Receipts</u>	<u>\$ 13,858.93</u>	<u>\$ 11,137.00</u>	<u>\$ 2,721.93</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Commodities	\$ 6,994.16	\$ 10,244.00	\$ (3,249.84)
Personal Services	8,543.11	5,900.00	2,643.11
Repairs & Maintenance	-	-	-
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 15,537.27</u>	<u>\$ 16,144.00</u>	<u>\$ (606.73)</u>
<u>Receipts Over (Under) Expenditures</u>	<u>(1,678.34)</u>		
<u>Unencumbered Cash, Beginning</u>	<u>2,979.74</u>		
<u>Unencumbered Cash, Ending</u>	<u>\$ 1,301.40</u>		

The notes to the financial statements are an integral part of this statement.

## CITY OF RILEY, KANSAS

BOND & INTEREST FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL AND BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Delinquent tax	\$ -	\$ -	\$ -
Special Assessments	20,591.13	44,151.00	(23,559.87)
Transfer from Water Utility	45,501.96	46,018.00	(516.04)
<u>Total Cash Receipts</u>	<u>\$ 66,093.09</u>	<u>\$ 90,169.00</u>	<u>\$ (24,075.91)</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Principal	\$ 35,911.79	\$ 53,438.00	\$ (17,526.21)
Interest	21,035.12	36,731.00	(15,695.88)
Commissions	1,517.29	-	1,517.29
Cash Basis Reserve	-	14,144.00	(14,144.00)
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 58,464.20</u>	<u>\$ 104,313.00</u>	<u>\$ (45,848.80)</u>
<u>Receipts Over (Under) Expenditures</u>	7,628.89		
<u>Unencumbered Cash, Beginning</u>	818.45		
<u>Unencumbered Cash, Ending</u>	<u>\$ 8,447.34</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS

BERGSTEN DEVELOPMENT FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Actual</u>
<u>Cash Receipts:</u>	
General Obligation Bond Proceeds	\$ -
<u>Total Cash Receipts</u>	<u>\$ -</u>
<u>Expenditures and Transfers Subject to Budget:</u>	
Principal Paid Temp Note	\$ -
Interest Paid Temp Note	-
Bond Issuance Costs	-
Capital Outlay	-
<u>Total Cash Expenditures and Transfers</u> <u>Subject to Budget</u>	<u>\$ -</u>
<u>Excess (Deficit) Cash Revenues Over</u> <u>Cash Expenditures</u>	-
<u>Beginning Fund Balance</u>	<u>22,871.18</u>
<u>Ending Fund Balance</u>	<u>\$ 22,871.18</u>

The notes to the financial statements are an integral part of this statement.



CITY OF RILEY, KANSAS

FOX RUN DEVELOPMENT FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Actual</u>
<u>Cash Receipts:</u>	
Bond Proceeds	\$ 613,000.00
Interest	1,728.32
	<hr/>
<u>Total Cash Receipts</u>	<u>\$ 614,728.32</u>
<u>Expenditures and Transfers Subject to Budget:</u>	
Principal Paid Temp Notes	\$ 589,000.00
Interest Paid Temp Notes	14,266.88
Fees	8,595.27
Legal Costs	-
Capital Outlay	-
	<hr/>
<u>Total Cash Expenditures and Transfers</u> <u>Subject to Budget</u>	<u>\$ 611,862.15</u>
<u>Excess (Deficit) Cash Revenues Over</u> <u>Cash Expenditures</u>	2,866.17
<u>Beginning Fund Balance</u>	<u>1,947.09</u>
<u>Ending Fund Balance</u>	<u>\$ 4,813.26</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS

KANSAS PUBLIC WATER SUPPLY LOAN FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Actual</u>
<u>Cash Receipts</u>	
Federal Grant	\$ 258,086.00
Kansas Water Supply Loan	668,728.24
	<hr/>
<u>Total Cash Receipts</u>	\$ 926,814.24
	<hr/>
<u>Expenditures and Transfers Subject to Budget:</u>	
Principal Paid Temp Notes	\$ -
Interest Paid Temp Notes	-
Legal Costs	8,373.58
Capital Outlay	-
	<hr/>
<u>Total Expenditures and Transfers</u>	
<u>Subject to Budget</u>	\$ 8,373.58
	<hr/>
<u>Receipts Over (Under) Expenditures</u>	918,440.66
<u>Unencumbered Cash, Beginning</u>	(1,277,861.25)
<u>Prior Year Cancelled Encumbrances</u>	276,876.41
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<u>Unencumbered Cash, Ending</u>	\$ (82,544.18)

The notes to the financial statements are an integral part of this statement.

## CITY OF RILEY, KANSAS

WATER UTILITY FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL AND BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Charges for services	\$ 300,868.89	\$ 285,000.00	\$ 15,868.89
Miscellaneous	1,468.99	1,500.00	(31.01)
Reimbursements	-	-	-
Water Deposits	6,997.51	0.00	6,997.51
<u>Total Cash Receipts</u>	<u>\$ 309,335.39</u>	<u>\$ 286,500.00</u>	<u>\$ 22,835.39</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Administration, Transmission & Distribution:			
Personal services	\$ 55,711.88	\$ 62,357.00	\$ (6,645.12)
Contractual services	4,214.28	2,000.00	2,214.28
Commodities	10,769.37	78,000.00	(67,230.63)
Capital Outlay	12,750.00	78,000.00	(65,250.00)
Trash Service	46,215.50	59,000.00	(12,784.50)
Lease Payment	13,025.54	-	13,025.54
<u>Total Admin., Transmission &amp; Distribution</u>	<u>\$ 142,686.57</u>	<u>\$ 279,357.00</u>	<u>\$ (136,670.43)</u>
Other:			
Transfer to General Fund	\$ -	\$ -	\$ -
Transfer to Bond & Interest	45,501.96	46,018.00	(516.04)
Transfer to Water Sys. Maint. & Replacement	4,200.00	4,200.00	-
Analytical & Legal Services	955.00	-	955.00
Dues & Fees	7,551.51	-	7,551.51
Fuel	710.74	-	710.74
Repairs & Maintenance	33,086.94	-	33,086.94
Sales Tax	588.12	-	588.12
Water Protection Fee	1,584.00	1,800.00	(216.00)
Miscellaneous	3,744.57	-	3,744.57
<u>Total Other Expenditures</u>	<u>\$ 97,922.84</u>	<u>\$ 52,018.00</u>	<u>\$ 45,904.84</u>
<u>Total Cash Expenditures and Transfers</u>			
<u>Subject to Budget</u>	<u>\$ 240,609.41</u>	<u>\$ 331,375.00</u>	<u>\$ (90,765.59)</u>
<u>Excess (Deficit) Cash Revenues Over</u>			
<u>Cash Expenditures</u>	68,725.98		
<u>Beginning Fund Balance</u>	111,981.76		
<u>Ending Fund Balance</u>	<u>\$ 180,707.74</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS

WATER SYSTEM MAINTENANCE & REPLACEMENT FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Actual</u>
<u>Cash Receipts:</u>	
Transfer from Water Utility	\$ 4,200.00
<u>Total Cash Receipts</u>	<u>\$ 4,200.00</u>
<u>Expenditures and Transfers Subject to Budget:</u>	
Repairs & Maintenance	\$ -
<u>Total Cash Expenditures and Transfers</u> <u>Subject to Budget</u>	<u>\$ -</u>
<u>Excess (Deficit) Cash Revenues Over</u> <u>Cash Expenditures</u>	4,200.00
<u>Beginning Fund Balance</u>	<u>16,800.00</u>
<u>Ending Fund Balance</u>	<u>\$ 21,000.00</u>

The notes to the financial statements are an integral part of this statement.



CITY OF RILEY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Riley, Kansas, is a municipal corporation governed by an elected five-member council plus a mayor. These financial statements present the City of Riley, Kansas, the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the component units of the City of Riley, Kansas.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

The following types of funds were utilized in recording the financial activities of the City of Riley for the year 2010:

Governmental Funds

General Fund -- The general fund is used to account for all unrestricted financial resources except those required to be accounted for in another fund.

Special Revenue Funds -- The special revenue funds are used to account for the proceeds of specific revenue sources, other than special assessments or major capital projects that are restricted by law or administrative action to expenditures for specific purposes.

Debt Service Fund -- The debt service fund is used to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments, which are general obligations of the City.

Capital Project Funds -- The capital project funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities and improvements, other than those financed by enterprise funds.

CITY OF RILEY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 1 - Summary of Significant Accounting Policies, Continued

Proprietary Funds

Enterprise Funds -- The enterprise funds are used to account for operations where it is the intent that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The amounts shown in the Total (Memorandum Only) row on the accompanying statement "Summary of Cash Receipts, Expenditures, and Unencumbered Cash" is presented only to facilitate financial analysis and is not the equivalent of a consolidated financial statement.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is charged in the fund from which the transfer is made. Cash disbursements are recognized when the cash balance of a fund is decreased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services, and are usually evidenced by a purchase order or a written contract.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a (c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expenditures, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balances; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes and compensated absences are not presented in the financial statements.



CITY OF RILEY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 1 - Summary of Significant Accounting Policies, Continued

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budget amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitments, such as a purchase order or contract. All encumbered appropriations (legal budget expenditure authority) lapse at year-end.

Qualifying budget credits must be authorized by Kansas Statutes and may include expenditure of federal grant moneys, gifts and donations, receipts authorized by law to be spent as if they were reimbursed expenses, and other special revenue exempted by Kansas Statutes.

CITY OF RILEY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 1 - Summary of Significant Accounting Policies, Continued

A legal operating budget is not required for capital project funds. Spending in funds not subject to the legal annual operating budget requirements are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Reimbursed Expenses

The City records reimbursable expenditures (or expense) in the fund that makes the disbursement and records reimbursements as revenue to the fund of receipt.

Compensated Absences

Expenses for accumulated vacation and sick leave earned by the employees are recorded when paid or taken by the employees. Only full-time employees, defined as employees who work at least 40 hours per week, shall be entitled to benefits of leave accumulation, holidays, insurance programs and other similar benefits. No benefits are available or can be accrued by a part-time or seasonal employee. Full-time employees are entitled to 1 day of vacation after the third month of full-time employment, and shall receive one day of vacation for each additional month of full-time employment thereafter. A full-time City employee may accumulate a maximum of 10 vacation days of paid vacation per year and upon termination, shall be paid for any unused leave in his/her final paycheck. Full-time employees earn 1 day of sick leave per month of full-time employment. Sick leave may be accumulated to 480 hours or 60 days. Any employee with ten plus years of continuous service who leaves City employment in good standing shall receive half of his/her accumulated sick leave, not to exceed 30 days.

Pension Plan

Substantially all employees of the City are members of the State of Kansas Public Employees' Retirement System, a multiple-employer public employer statewide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

Note 2 - Stewardship, Compliance and Accountability

During the course of the audit of the financial statements of the City of Riley, no statutory violations were noted.

Note 3 - Deposits and Investments

At December 31, 2010 the City had no investments.



CITY OF RILEY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 3 - Deposits and Investments, Continued

K.S.A 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

<u>Investments</u>	<u>Percentage of Investments</u>
Guaranteed Investment Contracts	100%
Secured by U.S. Treasury & Agencies	

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City did not designate peak periods during 2010. All deposits were legally secured at December 31, 2010.

As of December 31, 2010 the carrying amount of the City's deposits was \$534,950.16. The bank balance was \$567,866.79. The difference between the carrying amount and the bank balance is outstanding checks. Of the bank balance, \$253,707.13 was covered by FDIC insurance and the remaining \$314,159.66 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties; the City, the pledging bank, and the independent third-party bank holding the pledged securities.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

# CITY OF RILEY

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

### Note 4 - Long-Term Debt

Changes in long-term liabilities for the Entity for the year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
<b>General Obligation Bonds:</b>										
Bond Series 1998A	4.15 - 5.1%	7/1/1998	\$ 90,000.00	9/1/2019	\$ 56,000.00	\$ -	\$ 5,000.00	\$ (5,000.00)	\$ 51,000.00	\$ 2,737.50
Bond Series 2006A	4.55 - 5.0%	1/1/2006	162,000.00	9/1/2026	149,000.00	-	6,000.00	(6,000.00)	143,000.00	6,852.00
Bond Series 2008A	4.0 - 5.9%	9/1/2008	250,000.00	9/1/2028	238,000.00	-	12,000.00	(12,000.00)	226,000.00	11,560.50
Bond Series 2010A	3.50%	9/1/2010	613,000.00	9/1/2031	-	613,000.00	-	613,000.00	613,000.00	-
<b>KDHE Loans:</b>										
Kansas Water Pollution Control										
Revolving Fund	2.77%	5/19/2004	703,000.00	3/1/2025	570,248.73	-	29,911.79	(29,911.79)	540,336.94	14,183.12
Kansas Water Supply Loan	4.04%	6/4/2009	97,638.75	8/1/2030	97,638.75	668,728.24	-	668,728.24	766,366.99	
<b>Temporary Notes:</b>										
Temporary Notes Series 2009 A	2.0%	7/15/2009	589,000.00	1/15/2011	589,000.00	-	589,000.00	(589,000.00)	-	14,266.88
<b>Capital Leases:</b>										
Backhoe Lease	5.0%	2/22/2007	57,000.00	2/22/2012	30,242.00	-	11,665.21	(11,665.21)	18,576.79	1,360.33
Firetruck Lease	5.0%	7/1/2007	50,423.40	7/15/2012	31,733.20	-	10,041.99	(10,041.99)	21,691.21	1,489.47
Fire Station Lease	5.5%	8/15/2007	85,000.00	7/15/2017	69,387.49	-	7,222.30	(7,222.30)	62,165.19	3,837.66
2008 Ford F-250 Pickup	4.25%	6/25/2008	26,855.00	6/15/2011	9,012.63	-	9,012.63	(9,012.63)	-	297.54
Total Contractual Indebtedness			1,840,262.80		1,281,728.24		679,853.92	601,874.32	2,442,137.12	56,585.00
Compensated Absences			4,107.56		168.38		-	168.38	4,275.94	-
Total Long-Term Debt			\$ 1,844,370.36		\$ 1,281,896.62		\$ 679,853.92	\$ 602,042.70	\$ 2,446,413.06	\$ 56,585.00

CITY OF RILEY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 4 - Long-Term Debt. Continued

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2010										Total
	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	2031-2035		
<b>PRINCIPAL</b>											
General Obligation Bond Series 1998A	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00	\$ 26,000.00	\$ -	\$ -	\$ -	\$ -	\$ 51,000.00
General Obligation Bond Series 2006A	6,000.00	7,000.00	7,000.00	7,000.00	8,000.00	43,000.00	53,000.00	12,000.00	-	-	143,000.00
General Obligation Bond Series 2008A	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	62,000.00	65,000.00	39,000.00	-	-	226,000.00
General Obligation Bond Series 2010A	-	18,000.00	20,000.00	25,000.00	25,000.00	135,000.00	160,000.00	190,000.00	40,000.00	-	613,000.00
KDHE Loan	30,746.08	31,603.65	32,485.13	33,391.20	34,322.53	186,517.78	191,270.59	-	-	-	540,336.96
Water Supply Loan Fund	32,879.00	28,538.96	29,703.57	30,915.72	32,177.32	181,688.11	221,911.43	271,563.06	-	-	829,377.17
Backhoe Lease	12,231.00	6,345.79	-	-	-	-	-	-	-	-	18,576.79
Firetruck Lease	10,577.85	11,113.36	-	-	-	-	-	-	-	-	21,691.21
Fire Station Lease	7,827.73	8,267.21	8,731.37	9,221.59	9,739.34	18,377.95	-	-	-	-	62,165.19
<b>TOTAL PRINCIPAL</b>	<b>117,261.66</b>	<b>127,868.97</b>	<b>114,920.07</b>	<b>122,528.51</b>	<b>126,239.19</b>	<b>652,583.84</b>	<b>691,182.02</b>	<b>512,563.06</b>	<b>40,000.00</b>		<b>2,505,147.32</b>
<b>INTEREST</b>											
General Obligation Bond Series 1998A	2,507.50	2,272.50	2,035.00	1,795.00	1,552.50	3,385.50	-	-	-	-	13,548.00
General Obligation Bond Series 2006A	6,552.00	6,252.00	5,930.00	5,608.00	5,286.00	20,797.50	10,192.00	546.00	-	-	61,163.50
General Obligation Bond Series 2008A	10,852.50	10,144.50	9,436.50	8,728.50	8,020.50	32,751.50	18,720.00	3,783.00	-	-	102,437.00
General Obligation Bond Series 2010A	-	42,910.00	20,825.00	20,125.00	19,250.00	82,950.00	57,575.00	27,475.00	1,400.00	-	272,510.00
KDHE Loan	14,755.88	13,898.31	13,016.83	12,110.76	11,179.43	40,992.02	13,488.23	-	-	-	119,441.46
Water Supply Loan Fund	33,122.39	31,893.16	30,728.55	29,516.40	28,254.80	120,472.49	80,249.17	31,120.93	-	-	385,357.89
Backhoe Lease	777.84	158.63	-	-	-	-	-	-	-	-	936.47
Firetruck Lease	953.97	418.46	-	-	-	-	-	-	-	-	1,372.43
Fire Station Lease	3,259.47	2,819.99	2,355.83	1,865.61	1,347.86	1,024.65	-	-	-	-	12,673.41
<b>TOTAL INTEREST</b>	<b>72,781.55</b>	<b>110,767.55</b>	<b>84,327.71</b>	<b>79,749.27</b>	<b>74,891.09</b>	<b>302,373.66</b>	<b>180,224.40</b>	<b>62,924.93</b>	<b>1,400.00</b>		<b>969,440.16</b>
<b>TOTAL PRINCIPAL &amp; INTEREST</b>	<b>\$ 190,043.21</b>	<b>\$ 238,636.52</b>	<b>\$ 199,247.78</b>	<b>\$ 202,277.78</b>	<b>\$ 201,130.28</b>	<b>\$ 954,957.50</b>	<b>\$ 871,406.42</b>	<b>\$ 575,487.99</b>	<b>\$ 41,400.00</b>	<b>\$</b>	<b>3,474,587.48</b>



CITY OF RILEY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 5 - Property Taxes

In accordance with governing State statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar-year basis and are levied and become a lien on the property on November 1<sup>st</sup> of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20<sup>th</sup> during the year levied with the balance to be paid on or before May 10<sup>th</sup> of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes levied and collected in the year prior to January 1<sup>st</sup> of the ensuing year.

Note 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no decreases in insurance coverage from the prior year.

Note 7 - Compensated Absences

As of December 31, 2010, the accumulated vacation leave due was \$4,275.94. An estimate of future sick pay as of December 31, 2010 has not been made, due to the uncertainty involved in predicting retirement versus termination.

Note 8 - Defined Benefit Pension Plan

*Plan description.* The City of Riley, Kansas participates in the Kansas Public Employees' Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 South Kansas Avenue, Suite 100; Topeka, Kansas 66603-3808) or by calling 1-888-275-5737.



CITY OF RILEY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 8 - Defined Benefit Pension Plan, Continued

*Funding Policy.* K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The City collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for calendar year end 2009 is 7.14%. There was a moratorium placed on the 1% death and disability insurance rate from April 2010 thru June 2010; reducing the total employer rate to 6.14% for the moratorium period. The City of Riley's contributions to KPERS for the years ending December 31, 2010, 2009, and 2008 were \$7,116.59, \$5,499.73, and \$5,428.70, respectively, exceeding the statutory required contributions for each year.

Note 9 - Capital Project Funds

At year-end, capital project authorizations, by fund, compared with expenditures from inception are as follows:

**Fox Run Development**

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Street, Water Main and Sanitary Sewer Improvements	\$ 557,200.72	\$ 704,254.09

**Bergsten Development**

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Street, Water Main and Sanitary Sewer Improvements	\$ 214,478.63	\$ 334,790.00

**Kansas Public Water Supply Loan Fund**

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Public Water System Replacement Project	\$ 1,106,997.17	\$ 1,375,500.00

The City has obtained a loan agreement with the Kansas Public Water Supply Loan Fund for up to \$975,500.00 and a CBDB Grant for up to \$400,000.00 to fund the Public Water System Replacement Project. As of June 29, 2011, an additional \$63,010.18 had been drawn from the Kansas Public Water Supply Loan Fund.

CITY OF RILEY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 10 - Interfund Transactions

The following operating transfers have been authorized for the year 2010:

<u>From</u>	<u>To</u>	<u>Authority</u>	<u>Amount</u>
Water Utility	Water System		
	Maint. & Repl.	K.S.A. 12-825d	\$ 4,200.00
Water Utility	Bond & Interest	K.S.A. 12-825d	\$ 45,501.96

Note 11 – Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through June 28, 2011, the date the financial statements were issued.

## APPENDIX A

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and City Council  
City of Riley, Kansas

We have audited the accompanying financial statements of the City of Riley, Kansas, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 28, 2011. That report disclosed the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Riley, Kansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Riley, Kansas' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Riley, Kansas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Riley, Kansas' financial statements that is more than inconsequential will not be prevented or detected by the City of Riley, Kansas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Riley, Kansas' internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Riley, Kansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Riley, Kansas, in a separate letter dated June 28, 2011.

This report is intended solely for the information and use of management, the City Council, the Kansas Department of Health and Environment, and the Kansas Department of Administration, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*James L. Gordon, CPA, PA*

James L. Gordon, C.P.A., P.A.  
June 28, 2011